

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 SAM-01 OES-06

SP-02 SS-15 STR-04 TRSE-00 ACDA-07 PA-01 PRS-01 SSO-00

NSCE-00 USIE-00 INRE-00 /096 W
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O R 090001Z SEP 76

FM AMEMBASSY QUITO

TO SECSTATE WASHDC IMMEDIATE 1470

INFO AMCONSUL GUAYAQUIL

C O N F I D E N T I A L QUITO 6447

E.O. 11652: GDS

TAGS: ENRG PFOR EC

SUBJ: GULF PUBLICLY ANNOUNCES IT HAS REQUESTED GOE TO START
NEGOTIATIONS FOR GULF'S WITHDRAWAL FROM ECUADOR; DISCLOSES
ITS MAIN GRIEVANCES AGAINST GOE

REFS: A(A) QUITO 6401; (B) STATE 221917

1. SUMMARY: GULF HAS PUBLICLY ANNOUNCED THAT ON AUGUST 31
IT REQUESTED THE GOE TO BEGIN NEGOTIATIONS FOR AN ORDERLY
WITHDRAWAL OF GULF FROM ECUADOR. GULF'S ANNOUNCEMENT CITED
THE COMPANY'S MAIN GRIEVANCES AGAINST THE GOE, AND DEPICTED
THE GOE AS HAVING IN EFFECT BROKEN ITS CONTRACT WITH GULF
AND THEREFORE AS BEING WITHOUT LEGAL FOUNDATION FOR ITS
THREAT TO CADUCE GULF'S PROPERTIES IN ECUADOR. THE GOE
MINISTER OF NATURAL RESOURCES PROMPTLY CONFIRMED TO THE PRESS
THAT THE GOE HAS DECIDED TO NEGOTIATE WITH GULF, PROVIDING
THAT THE COMPANY COMPLIES WITH ALL ITS OBLIGATIONS UNDER
ECUADOREAN LAW AND ITS CONTRACT, AND HE ASSERTED THAT GULF'S
CHARGES AGAINST THE GOE WERE EXAGGERATED AND MISLEADING. THE
PRESS ACCOUNTS GIVE THE (ERRONEOUS) IMPRESSION THAT GULF'S
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DECISION TO NEGOTIATE A BUY-OUT WAS MADE IN RESPONSE TO THE

GOE'S DEMAND THAT GULF PAY ITS OVERDUE DEPOSITS
TO THE GOE BY SEPTEMBER 30. END SUMMARY.

2. GULF'S LOCAL MANAGER TERRENCE O'BRIEN IN A PRESS CONFERENCE 6:30 P.M. ON SEPTEMBER 7 PUT FORTH ESSENTIALLY THE SAME POINTS AS IN REF B. O'BRIEN EXPRESSED CONFIDENCE THAT IT IS POSSIBLE TO ARRIVE AT A MUTUALLY SATISFACTORY AGREEMENT WITH THE GOE AND THUS TO ASSURE THAT PETROLEUM OPERATIONS IN ECUADOR CONTINUE IN A NORMAL AND EFFICIENT MANNER.

3. O'BRIEN TOLD THE PRESS THAT THE GOE OWES THE COMPANY A TOTAL OF \$27.3 MILLION, DERIVING FROM A \$20.2 MILLION DEBT FOR OVERRETENTION OF DEPOSITS BY THE CENTRAL BANK AND \$7.1 MILLION OWED BY CEPE. HE BROKE DOWN CEPE'S DEBTS AS FOLLOWS: \$3.2 MILLION FOR LOCAL SALES OF CRUDE TO THE ECUADOREAN REFINERIES SINCE JULY; \$2.3 MILLION FOR 36 MILLION GALLONS OF REFINED PRODUCTS SUPPLIED TO CEPE; \$1.2 MILLION FOR CEPE'S ACQUISITION OF 25 PERCENT OF THE CONSORTIUM; \$272,000 FOR SERVICING OF THE TRANS-ECUADOREAN PIPELINE; AND AN AMOUNT EQUAL TO 12.5 PERCENT OF THE COST OF THE EXPANSION OF GULF'S SMALL REFINERY (IN THE ORIENTE) IN WHICH CEPE HAS A SHARE. HE SAID THAT AFTER DEDUCTING TAXES AND OTHER LEVIES GULF CONCEDES IT CURRENTLY OWES TO THE GOE, THE GOE'S NET DEBT TO GULF TOTALS \$14.1 MILLION, WHILE THE COMPANY'S OVERDUE DEPOSITS TOTAL \$13.8 MILLION.

4. O'BRIEN SAID THAT THE APPLICABLE PENALTY FOR GULF'S NON-PAYMENT OF DEPOSITS WITHIN 120 DAYS IS THE PAYMENT OF A HIGH DAILY INTEREST RATE, AND SUCH NON-PAYMENT DOES NOT PROVIDE GROUNDS FOR CADUCITY.

5. O'BRIEN ALSO SAID THAT GULF HAS SUSPENDED BUT NOT WITHDRAWN ITS COURT CASE IN THE UNITED STATES AGAINST ATLANTIC RICHFIELD, SEEKING PAYMENT OF \$5 MILLION TO GULF RATHER THAN TO CEPE FOR A SHIPMENT DELIVERED IN JULY ON THE TANKER "RUTH."

6. MINISTER OF NATURAL RESOURCES RENE VARGAS HELD A PRESS CONFERENCE AT 10 P.M. THE SAME EVENING AND ANNOUNCED THAT
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THE GOVERNMENT HAS DECIDED TO NEGOTIATE A BUY-OUT OF GULF'S HOLDINGS, IF AND ONLY IF THE COMPANY FULFILLS ALL ITS OBLIGATIONS UNDER ECUADOREAN LAW AND ITS CONTRACT. REGARDING THE COMPANY'S CHARGE THAT THE GOE HAS BEEN OVERRETAINING PAYMENTS DUE TO THE COMPANY, VARGAS SAID THIS MATTER IS BEING ANALYZED BY A GOE INTER-INSTITUTIONAL COMMISSION, AND THAT THE PRELIMINARY REPORTS FROM THIS COMMISSION INDICATE THAT IF THERE ARE ANY OVERRETENTIONS THEY TOTAL MUCH LESS

THAN THE AMOUNT MENTIONED BY GULF. ACCORDING TO THE PRESS REPORTS, THE MINISTER ACKNOWLEDGED THAT CEPE HAS WITHHELD SOME PAYMENTS OWED TO GULF FOR CRUDE SUPPLIED TO ECUADOREAN REFINERIES, BUT HE SAID THAT THIS AMOUNT WOULD NOT BE PAID UNLESS AND UNTIL THERE IS A RESOLUTION, SATISFACTORY TO THE GOE, OF GULF'S COURT CASE IN THE U.S. ARISING FROM THE "RUTH" SHIPMENT. THE MINISTER FLATLY DENIED GULF'S CHARGE THAT SUPPLIES FOR THE DOMESTIC MARKET HAVE BEEN IN EXCESS OF ACTUAL REQUIREMENTS.

7. VARGAS SAID THAT GULF'S OVERDUE DEPOSITS AS OF SEPTEMBER 3 TOTALLED \$32.3 MILLION, AND THAT THIS AMOUNT WILL RISE TO APPROXIMATELY \$65 MILLION BY THE END OF 1976.

8. THE MINISTER CONFIRMED THAT IF CADUCITY IS EXERCISED CEPE WOULD ACQUIRE ALL OF GULF'S 37.1 PERCENT SHARE OF THE CONSORTIUM, GIVING CEPE A SHARE TOTALLING 62.5 PERCENT. VARIOUS REPORTS IN THE ECUADOREAN PRESS ON SEPTEMBER 8 QUOTE AN UNIDENTIFIED TEXACO OFFICIAL IN NEW YORK AS HAVING INDICATED THAT TEXACO WILL CONTINUE TO OPERATE IN ECUADOR, WITH A 37.5 PERCENT SHARE.

9. EDITORIAL REACTION TO GULF'S ANNOUNCEMENT HAS SO FAR BEEN CONFIED, IN THE MAJOR DAILIES, TO:

10. (A) A FRONT-PAGE ARTICLE IN THE LEADING ECUADOREAN DAILY, "EL UNIVERSO" OF GUAYAQUIL, BY THE INFLUENTIAL ECONOMIC COMMENTATOR WALTER SPURRIER, IN WHICH HE (ERRONEOUSLY) DEPICTS GULF'S STATEMENT AS BEING GULF'S ANSWER TO THE 30-DAY ULTIMATUM THE GOE PRESENTED TO GULF, BEMOANS THE ADVERSE IMPACT GULF'S ACTION IS BOUND TO HAVE ON THE ATTITUDES OF PROSPECTIVE FOREIGN INVESTORS, AND CALLS UPON THE GOE TO CLARIFY ITS PETROLEUM POLICIES;
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11. (B) AN EDITORIAL IN "EL TELEGRAFO" OF GUAYAQUIL, WHICH FORECASTS "A DISASTER OF ENORMOUS PROPORTIONS" FOR ECUADOR AND ASSERTS THAT "IF THE JINGOISM OF THOSE WHO MANAGE OUR POLITICAL POLICY HAD NOT FRIGHTENED OUT OF OUR ORIENTE OTHER FOREIGN COMPANIES, LEAVING IN POWER JUST ONE CONSORTIUM, WE WOULD NOT BE PASSING THROUGH THE CURRENT HARD AND PAINFUL PATH, WHICH MAY LEAD US TO A CATASTROPHE OF INCALCULABLE DIMENSIONS"; AND

12. (C) A CARTOON IN "EXPRESO" OF GUAYAQUIL SHOWING A CORPULENT BUSINESSMAN WITH A BRIEFCASE LABELED "GULF," SAYING "GOODBYE" TO A MILITARY OFFICIAL HOLDING A PAPER INSCRIBED "30 DAYS," WITH THE CAPTION READING "MAY IT BE A SURE THING."

13. EMBASSY COMMENT:

WHILE ECUADOREAN LEFTISTS WILL REJOICE OVER GULF'S IMPENDING DEPARTURE, WE ANTICIPATE THAT THE BUSINESS COMMUNITIES AND MODERATE ELEMENTS--WHO IN NUMBER, IN ORGANIZATION COHERENCE AND IN INFLUENCE ON THE GOE ARE CONSIDERABLY STRONGER THAN THE LEFTISTS--WILL BE EXTREMELY DISMAYED AT THE PROSPECT OF THE COUNTRY'S MOST PRECIOUS RESOURCE COMING UNDER THE MAJORITY CONTROL OF CEPE, AN INSTITUTION WHOSE REPUTATION FOR MANAGERIAL CAPACITY IS AT AN ALL-TIME LOW IN ECUADOR. (THE EMBASSY IS POUCHING AN AIRGRAM DETAILING RECENT AND CURRENT SHORTAGES OF FUELS, ELECTRICITY AND OTHER ESSENTIALS, MOST OF WHICH SHORTAGES ARE WIDELY AND HEATEDLY BEING BLAMED ON CEPE.) MOREOVER, O'BRIEN'S ANNOUNCEMENT WAS THE FIRST EVER BY GULF PUBLICLY SPECIFYING ITS MAJOR CURRENT GRIEVANCES AGAINST THE GOE; AND TO THE EXTENT THAT THE ECUADOREAN MODERATES AND RIGHTISTS BELIEVE GULF'S ASSERTIONS, THEY WILL BELIEVE THAT CEPE AND THE GOE HAVE MUCH TO ANSWER FOR. SINCE THIS IS THE FIRST EFFORT OF GULF TO PRESENT ITS SIDE OF THE CASE HOWEVER, THE INFORMATION AVAILABLE TO THE ECUADOREAN PUBLIC REMAINS, BIASED IN FAVOR OF THE MINISTERS OF RESOURCES AND CEPE. IT WILL BE DIFFICULT TO OVERCOME THE PRIMITIVE, BUT EFFECTIVE ARGUMENT THAT VARGAS (AND PERFORCE THE REST OF THE GOE) ARE MAKING, NAMELY THAT GULF HAS BEEN THUMBING ITS NOSE AT ECUADOREAN SOVEREIGNTY.

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